As Prepared for Delivery

China and America: Power and Responsibility

Remarks of
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Hopes and Dreams

It's a special pleasure to be here tonight with all of you and the distinguished individuals you are honoring.

So I thought I might open by sharing some insights from another impressive group.

Last October in Shenyang, in China's changing but challenging Manchurian "rustbelt," I sat down with a group of about 30 graduate students from Liaoning University. I try to meet young people on my trips overseas to learn about the coming generation's hopes and dreams for their countries, and have done so on several visits to China.

At first these young Chinese seemed somewhat scripted, so we tried to think of a question that might elicit an insight into what they were really thinking. A colleague came up with asking each student to name the American, past or present, they would most wish to meet.

There were "Bushes" and "Clintons," as one might expect in a society with a cultivated respect for authority.

When a few said "Lincoln," I wondered whether the association was with freedom or the preservation of the union.

I smiled at the number who said "Bill Gates"; entrepreneurial capitalists have not always been held in high esteem in China. I also made a mental note to think how we might reference this interest to persuade their elders in Beijing to strengthen the protection of intellectual property.

Perhaps most striking was one young man who boldly named Ronald Reagan as his most admired American, because he said President Reagan understood power. This young man added that he dreamed of the day when he would peacefully ride a horse through Tokyo, demonstrating that China had reclaimed its pride without hostility.

China's Rising Economic Power

The Chinese are justifiably proud of their economic achievements over the last 25 years. I first visited

China in 1980 while I was living in Hong Kong, when Westerners still inspired open-mouthed curiosity among the average Chinese. Now foreign visitors to China are the ones walking around with dropped jaws.

To many younger Chinese, the extraordinary pace of China's economy has become commonplace: Although some experts question precise statistics, China reports that it has been growing at better than nine percent a year during the 1980s, ten percent a year during the 1990s, and still better than nine percent today.

By the most conservative measure, China is now the world's seventh largest economy. Adjusting for purchasing power, the World Bank reports China's economy is actually number two in the world, larger than Japan and growing more quickly.

Yet impressive growth rates are only one side of China's story. Since the economic opening began, China has added the equivalent of the entire U.S. population -- nearly 300 million people. China's new markets must cope with the redeployment of tens of millions of underemployed workers. Whereas U.S. manufacturers downsized some 2 million jobs in the 1995-2002 period, China lost 15 million factory jobs over the same timeframe. Increasing numbers of China's 900 million peasants are leaving the countryside for the promise and peril of a new life in the city. One Chinese official told me that his country has to add 50,000 new jobs a day to cope with both population growth and the dislocations caused by economic reform. Moreover, China's ability to allocate capital productively is limited by a rudimentary financial system buried under a mountain of bad debt. China's new leaders caution that the country still faces huge challenges, with ill consequences for many if they misstep.

China's impressive gains invite some to speculate with straight-line projections. Yet policy is more wisely based on probabilities than prophecies. It is not easy to assess China today, much less tomorrow. Is China a poor developing country? A regional power? An emerging global economic and military power? All three at once?

Changing Relations Among Powers

In the late 1990s, the rise of China prompted a number of writers intrigued by shifting power relations to recall the classic insight drawn by Thucydides in his work on the Peloponnesian War. That clash, the historian concluded, had been caused by the "growth of Athenian power and the fear this created in Sparta."

Drawing on more recent history, some looked to shifting power relations at the start of the 20th Century. One rising power, imperial Germany, could not or would not peacefully accommodate the international order without threatening others. It took two world wars and a Cold War for a united Germany to secure itself safely and democratically within Europe. Another rising power of 1900, the United States, first reinforced the European democracies that could not sustain the old order and then led the way in creating a new global security and economic system.

The point of these strategic commentaries is that the United States and others need to work with China

to integrate its rising power into regional and global security, economic, and political arrangements. For its part, China warrants respect, but needs to be careful not to trigger fears.

Yet history is more likely to suggest questions than deliver answers to today's challenges. China's development certainly will shape the global economy and security relations. At the same time, the United States is not a status quo power that is intent on preserving the old order. To the contrary, the United States, the prime sponsor of the current global security and economic architecture, has turned out to be the country that is challenging others to recognize the need for change.

We are substituting missile defense for the old doctrine of mutually assured destruction. We are changing the world's security focus to weapons of mass destruction, especially in the hands of terrorist states or individuals. We are challenging others to recognize that democracy, openness, the rule of law, and economic opportunity can sustain deeper stability, generate hope, and encourage respect for human rights. Our private sector's economic dynamism, creativity, and capacity for regeneration make America a rising power in its own right and an imposing giant.

So even as we seek to integrate China peacefully, prosperously, and positively into the international system of the early 21st Century, that international system is itself changing rapidly.

Changing China

China is more than a rising power -- it is a changing country. The forces inside China that are spurring development are transforming the role of the state, attitudes toward the rule of law, and the place of individuals within the society. With a touch of irony, as China opens to the world, it is reopening opportunities for the Chinese people to draw upon old traditions, too.

A Chinese official shared with me some observations about the ripple effects of China's accession to the WTO. To begin, he said that the Chinese had to invent a word for "win-win." The concept was unfamiliar to the old China. The wind blew from the east or west. A man was alive or dead. One won or lost. So I took special note upon leaving Beijing two weeks ago that Vice Premier Wu Yi told the media that our cooperation on the Doha WTO negotiations could create a "win-win" result for both developing and developed countries.

Although the Chinese had applied the concept of transparency in the physical sciences, they had not recognized the concept in commercial relations. To the contrary, one of those many old Chinese sayings warned that, "Fish that swim in clear water do not survive." Now, the terms of China's WTO accession are requiring transparency in many aspects of the economy**.**

The American Experience with China

As the United States seeks to develop a new relationship with a fast-changing China, it is worth recalling the pattern of our old relationship. For much of our history, the United States has had a romanticized image of China.

America's first widespread contact with China came through missionaries' efforts to "save China," an effort that tapped deep-seated American impulses. The missionary movement reached deep into the American heartland, far beyond the Eastern elites who considered themselves guardians of U.S. foreign policy. It touched millions of families and their children as returning missionaries brought the China Experience into churches and Sunday Schools, passing the plate for nickels and dimes to help spread the word.

Beyond the churches, the missionaries' influence extended more widely. Many were trained at Yale, Princeton, Oberlin, and other leading schools. Their children returned to become political leaders, scholars, and foreign service officers. They became interpreters of China.

The children of missionaries also wrote books that influenced America's attitude toward China. The most famous and influential of these writers was Pearl Buck, whose book, The Good Earth, received a Pulitzer Prize, sold 1.5 million copies, became a Broadway play, and was transformed into a movie viewed by an estimated 23 million people in the United States. Nor was this a singular example of American popular culture's infatuation with China. For later generations, the film "The Sand Pebbles" portrayed the confusing experience of the U.S. Navy and missionaries in a bewildering China caught between the old ways and the new, while "The Last Emperor" pictured Pu Yi's and China's 20th Century journeys.

America's trading ties reinforced the images of China created by the missionaries. Tales of China clippers and vast fortunes to be made or lost captured America's imagination. Unlike Europeans, Russians, and Japanese who grasped territories from disintegrating Qing China, a century ago U.S. Secretary of State John Hay advocated an "Open Door" that would allow all to prosper from the "great China trade."

The romanticized, missionary view of China has had important implications for U.S. policies. The United States used most of the indemnity from the Boxer Rebellion to create scholarships to bring Chinese students to America. When the Chinese have embraced the United States and its ways, Americans have been enthusiastic. Americans admired and committed themselves to Sun Yat-sen, Chiang Kai-shek, the Flying Tigers, the YMCA and YWCA in China, the stoic dignity of enduring peasants, and, in a later era, ping-pong diplomacy and the modernizing Deng Xiaoping.

But when China refused to be as Americans imagined it -- or worse, rejected America -- Americans were affronted. These Chinese -- whether they were Boxers, Warlords, "Red" Chinese who attacked in human waves, or gray old men who crushed the demonstrators in Tiananmen Square -- shocked and infuriated us. So the pendulum of attitudes swings, from embrace to rejection and back again.

It is time to recognize China for what it is and may become, not what we imagine China to be. We need to face the practical realities of the U.S.-China relationship.

Those realities suggest that we should be prepared for China's future to take different courses even as we seek to influence the direction. Working with others, we can encourage China to recognize its self-interest, and our mutual interests, in using its emerging power responsibly. China benefits from the

current arrangements for regional stability and the open international economy. We have a common interest in addressing dangers to that security and challenges to the world economy. We also have a common interest in China tapping the talents and spirit of its citizens through a more open society with greater respect for the rule of law and human liberty.

Power and Responsibility

China's leadership is of two minds about "power and responsibility." On the one hand, China is proud of its newfound international respect. On the other hand, China's many internal challenges make it harder for it to focus on externally responsible behavior.

It is a cliche to ascribe allegorical qualities to China's self-described "Middle Kingdom" status, yet China has been inwardly-focused historically. Enormous and diverse, China has been difficult to govern. Even during the height of China's imperial power, Chinese rulers were consumed by internal dynamics -- and preventing vulnerability to outside forces. Worrying about the state of affairs beyond China's borders must, for China's leadership, seem so ... *foreign*.

Yet China's modern-day emergence requires China to depend on others for its continued development. China's leadership not only needs to *worry* about life beyond the Kingdom, but needs to actively help shape the state of affairs in a way that supports China's continued development.

Under Mao Zedong, China proclaimed it had "friends all over the world" and encouraged revolution in the developing world. As China retreated from its revolutionary stance in the 1970's, it claimed a solidarity with an undifferentiated Third World demanding a radical restructuring of the world economy. Posturing as the leader of the Third World against the world economic order is not a sustainable policy for China these days.

China, as much if not more than any other economy, benefits from the increasing integration of the global economy. China's successes are intimately bound up in the economic health of others and of global policies that encourage open trade, investment, global sourcing, and the free flow of information. The Chinese deserve fair recognition for advancing their own destiny, but their accomplishments are in many respects a direct result of having taken advantage of opportunities afforded by the hard work begun at Bretton Woods. Now that China is one of the few engines of global economic growth, it bears an increasing share of the responsibility for the continued health of the global economic architecture. To whom much is given, much is required.

China's Responsibilities in World Trade

For China to exercise the responsibility that comes with its new status as a trading power, China must fully implement the commitments it made on joining the WTO. China's WTO accession was an historical achievement, and the efforts required of China to implement its accession commitments are substantial. Yet the complexity of the task does not excuse an incomplete performance. The future of

the WTO as a viable institution rests in no small part on China's willingness to uphold and promote the norms established by the WTO.

With all of the challenges facing China, China may be losing momentum on WTO implementation. Some officials, bending to pressures from entrenched interests, are continually working to find ways around implementing the country's obligations. This is something about which not only we, but China as well, need to be extremely concerned.

Each of us faces our share of entrenched interests that resist change. Indeed, I know them well! But the influence of such groups is heightened in China because it is still building a market economy, the legacies of state ownership continue to place obstacles in the path of competition, and the rule of law is still weak.

If China does not reverse its lax enforcement of intellectual property rights (IPR), it will subvert the development of knowledge industries and innovation around the world. Piracy of ideas in China is rampant. If we can make it, they can fake it. The items being counterfeited range far beyond DVDs and other creative media. They include automobile brakes, even entire passenger cars, electrical switches, medicines, processed foods and other items that present health and safety risks in China and abroad because of poor product quality regulation. The scope and magnitude of the problem is increasing -- with some American firms experiencing wholesale theft of their brand names -- from sales operations to product delivery. Premier Wen Jiabao and others have spoken of the importance of IPR to an advancing economy and of the need to enforce IPR more actively. Vice Premier Wu Yi -- formerly China's Trade Minister and the accomplished woman who the leaders put in charge of the SARS crisis -- now chairs a working group on IPR enforcement. Yet, as the Chinese say, "talk doesn't cook rice." We need to see results.

China's discriminatory tax policies -- most blatantly on semiconductors -- are a troubling signal that China may seek to pursue an industrial policy of limiting competition from imports, while gaining the advantages of open competition in others' markets. China is turning to special standards designed to limit foreign participation in key sectors. For example, China's new mandatory encryption standard for wireless networking products would make China the only WTO member to introduce such a mandate for consumer products -- a restriction compounded by granting domestic companies exclusive control over the technology. In the area of agriculture, we have had to remain vigilant to stop China from using questionable standards to stop our farm exports.

China's high capitalization requirements and other operating restrictions on services firms are not justifiable on the grounds of safety and soundness. And by the end of this year, China is obligated to grant open trading and distribution rights to foreign firms, so we and others can sell products directly to Chinese buyers, to get U.S. goods on Chinese store shelves. This WTO obligation is the ultimate test of China's commitment to an open door policy.

China's trade responsibilities extend beyond implementing its WTO commitments. It should be a constructive leader in global and regional arrangements.

China's approach to its ASEAN neighbors in Southeast Asia reflects a recognition of strategic considerations. By proposing to negotiate a free trade agreement with the ASEAN countries, China shrewdly offered to share the benefits of its economic growth -- while reminding the region of its growing reliance on China. We welcome China's willingness to expand the benefits of growth to others. At the same time, we want to offer the region multiple opportunities for special economic ties. This year the U.S. FTA with Singapore went into effect. We just completed FTA negotiations with Australia, which we hope Congress will act on this year. We are launching an FTA negotiation with Thailand, the next milestone on the free trade pathway President Bush mapped out in his Enterprise for ASEAN Initiative.

China's trading relations with countries around the world -- especially developing nations -- will be especially tested next year. On December 31, 2004, the 50-year old quota system that governed the global textile and apparel trade will finally be dismantled. Even with quota limits, China accounts for 20 percent of global textile production. The World Bank estimates that after the end of the quotas, China will be home to some 50 percent of the production. The world will be watching closely to see how China handles this transition. Our recent FTA with Central America is designed in part to create an opportunity for our integrated North and Central American textile and apparel market to compete. We are also working with sub-Saharan Africans, and others in the Caribbean and Latin America, to help them compete through preferential agreements.

During my visit to Beijing earlier this month, I urged my Chinese counterparts to share with us another, even larger leadership responsibility: To advance the global trade negotiations in the WTO launched at Doha in 2001. As a major trading economy, China, like the United States, has a great stake in helping to shape the trade rules for the next generation. We each have national interests to pursue. But China needs to approach these negotiations with a broader outlook.

Given the nature of the WTO and the necessity of reaching consensus among 148 diverse economies, the negotiations depend on a group of countries that will try to solve problems together, devise creative compromises, and urge others forward. Even though these leaders will have differences, they share a larger interest in advancing a rules-based trading system to open markets further. We need China to be a partner in trade leadership.

America's Responsibility

The obligation to combine power with responsibility does not simply rest on China's shoulders. To build a U.S.-China relationship that fosters our mutual interests and a stronger global economy, we -- including all of you -- need to explain the benefits and possibilities of the changes in China.

China's emergence is frequently compared with that of Japan, but the contrasts outnumber the similarities. China is not another "Japan, Inc.," -- an export-driven machine that shunned imports and the participation of foreign businesses.

China sells, but it also buys. While our large trade deficit with China inevitably draws much attention, China only reports a modest global surplus. China imports a multitude of products to fuel its growing

economy.

The last three years have been marked by a flat world economy; as a result, U.S. exports worldwide have dropped seven percent. But American exports to China have soared 75 percent over this period. China has become one of the top export markets for the United States: It bought $28 billion worth of U.S. goods last year, and the number is growing impressively. The cranes on the docks of Shanghai, Hong Kong, and Tianjin are not simply loading containers for export to the United States. They are also unloading huge amounts of American machinery, American farm products, American aircraft, and American electronics. Healthy U.S. prices for soybeans and cotton, for example, can be traced in significant part to the more than $4.5 billion of U.S. farm exports to China in 2003.

Many U.S. companies are now doing a brisk business in China. These investments earn returns for Americans. They also create U.S. jobs throughout global value chains -- designing and producing products, managing logistics, running distribution hubs, delivering goods, exporting components, bringing goods through ports, providing financial services, and offering retailing opportunities, among many other activities.

To take just one example, General Motors has estimated that it has exported more than $1.4 billion in U.S.-made products, components, and machinery to its facilities in China since 1998. Fully 15 percent of the annual production of its Lansing Grand River Plant is exported to China, including fully-assembled Cadillac sedans and SUVs, and component kits for Buick Regal Sedans and station wagons.

Just as the Chinese are learning the win-win nature of trade, Americans should not forget how that idea works. As China grows and becomes more prosperous, it will buy more -- creating economic opportunity.

Of course, China's integration into the international economic community will not be seamless. The United States should provide clear signals to China of what we and others expect in a mutually beneficial, long-term relationship. We should be vigilant in identifying problems and seeking to resolve them together. We must stand ready to deploy remedies available under international trade rules if necessary.

The United States also needs to look ahead with China. It would be useful to have anticipatory exchanges to share outlooks on the regional and global economies, developments in financial markets, energy supplies, and agricultural markets. I hope China also responds positively to our overture for a strategic dialogue on the WTO, especially as we seek to press the Doha negotiations forward.

Conclusion

Each of you will be very important in determining how the United States responds to an emerging China. There is much at stake for both countries -- and the world -- in how China and the United States exercise power and responsibility.

This is not just a challenge for the U.S. government -- or an Administration. Our long-term relationship

with China depends on attitudes across America. You can help shape those attitudes.

During my visit to Shenyang last year, I visited the 918 Museum, on the site of the infamous incident of September 18, 1931, which provided Japan the excuse to occupy Manchuria. The exhibition rooms told the tragic story of invasion, cruelty, and courageous Chinese resistance. But at the end of the tour I noticed a revealing gap in the account: After late 1941, the exhibits jumped to August 1945 and the Soviet Union's entry into the war against Japan. I was troubled by this manipulation of history. How could young Chinese learn about America if their elders were not honest about the role the United States had played in defeating China's invader?

It is our responsibility to be honest, too.

American business leaders who recognize China's opportunities and benefits will need to explain them to employees. Executives and employees together will need to discuss these interests with Members of Congress. Many American workers have good-paying jobs because of U.S. business with China. Many American consumers can stretch their hard-earned dollars further because of imports from China. And when trade causes dislocations, we need to assist with the process of adjustment.

Those here tonight know the United States has a responsibility to shape the international political economy of the 21st Century. You need to speak out against those calling for economic isolationism and defeatism. One of America's great strengths is facing up to our challenges -- at least eventually -- without blaming our problems on others.

I spend a lot of time traveling around the world. I see that others view America as incredibly powerful, with extraordinary reach. We evoke a conflicting combination of feelings: a magnetism that draws others, respect, reliance… but also envy, frustration, and even fear.

In the end, we -- our country -- will be judged by the results of our labors. One of our most important tasks will be to work with China so that its rising power -- and our growing power -- create greater security, prosperity, and liberty.